CONTRACT TAXATION

CONTRACT NO. 5

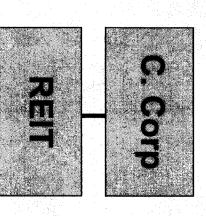
CONTRACT NO. 58-120

State Tax Shelter Using a Captive REIT

- A corporation establishes a REIT subsidiary and transfers its real estate to the REIT
- on that income by the subsidiary. shelters income equal to its rental expenses it pays to its own subsidiary—but no tax is paid income as rent, the REIT pays no tax because of a dividend paid deduction. The corporation received deduction for the income it receives from the REIT.Even though the REIT receives The corporation deducts its rental payments to the REIT, but improperly claims a dividend

Real estate transferred to REIT

Corporation deducts rental payments to REIT as an expense and reduces its state tax payments.



Tax on REIT Income = \$0 due to questionable dividend received claim

REIT Tax = \$0
because of
dividend paid
deduction